

PUBLIC DISCLOSURE

September 3, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Oak Valley Community Bank
12-06-0897-0000**

**125 North Third Avenue
Oakdale, California 95361**

**FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET
SAN FRANCISCO, CALIFORNIA 94105**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Oak Valley Community Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of September 3, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

INSTITUTION'S CRA RATING:

This institution's overall CRA (Community Reinvestment Act) performance is rated **satisfactory** based upon a review of its provision of credit to its community. Evidence was found during the examination that management had taken an affirmative role in identifying and meeting the credit needs of its entire community in a manner consistent with its resources and capabilities.

The following table indicates the performance level of Oak Valley Community Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>OAK VALLEY COMMUNITY BANK</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans			X
Response to Complaints	No complaints had been received since the prior examination.		

DESCRIPTION OF INSTITUTION:

Oak Valley Community Bank is an unaffiliated bank located in the city of Oakdale in Stanislaus County, approximately 100 miles east of San Francisco. On May 6, 1996, the bank opened its first branch which is located in the city of Sonora in Tuolumne County. The bank has demonstrated strong growth since its inception in 1991. Total assets of the bank as of June 30, 1996 were \$48.3 million, reflecting a 45% increase since the previous examination in 1994 when total assets were \$33.3 million. According to the June 30, 1996 Call Report, the loan portfolio mix is as follows:

Commercial Loans	60%
Agricultural Loans	18%
Residential Real Estate Loans	14%
Construction Loans	4%
Personal Loans	4%

As the distribution reveals, Oak Valley Community Bank is primarily a commercial lender. The bank is prepared to extend all types of business loans, including real estate secured commercial loans, government guaranteed business loans (including Small Business Administration loans), commercial construction loans, and account receivable secured loans. A second area of concentration is agricultural lending. This includes direct and government-guaranteed agricultural loans to purchase farm land and to supplement working capital. Other loan products are offered such as auto loans, home equity lines of credit, and loans for personal, family and household purposes.

The bank's previous CRA performance was satisfactory. There are no legal impediments that would hinder the bank from meeting the community credit needs.

DESCRIPTION OF ASSESSMENT AREA (*San Joaquin, Stanislaus, Tuolumne, and Calaveras Counties*):

The bank's assessment area is a contiguous area consisting of four counties: San Joaquin County (the sole county in the Stockton-Lodi MSA), Stanislaus County (the sole county in the Modesto MSA), Tuolumne County and Calaveras County (both are non-MSA counties). The boundaries of the assessment area do not reflect illegal discrimination and do not arbitrarily exclude low and moderate-income areas.

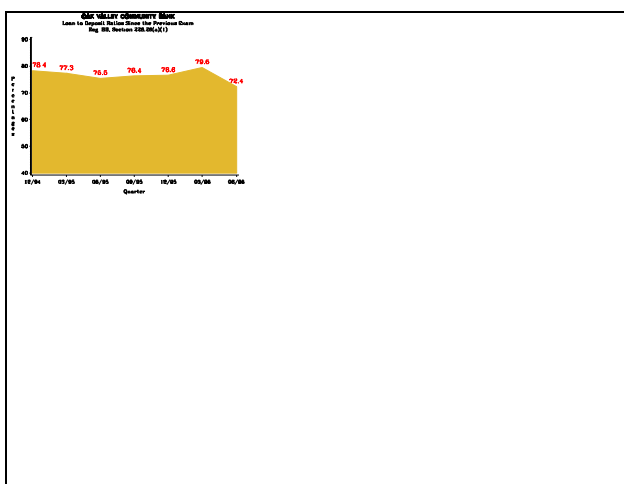
San Joaquin and Stanislaus are the two dominant counties, contributing the majority both in terms of population (51.6% and 39.8% respectively) and census tracts (50.2% and 43.2% respectively), while Tuolumne and Calaveras combined, appear insignificant for a low 8.6% of the assessment area's population and 6.6% of the assessment area's census tracts. The total population of the assessment area was 931,604 according to the 1990 Census, and the median household income was \$30,002. The range of the four counties' median household income was fairly narrow at \$27,031-30,635, which was about the middle between the state median (\$35,798) and the state's non-metro median (\$25,507) income.

According to information from the U. S. Bureau of Labor Statistics, the assessment area's employment profile has remained essentially stagnant. The two metro counties continued to report very high unemployment rates, 12.3% for San Joaquin and 15.0% for Stanislaus in 1994. Both counties reported similar big declines (8.2-8.3%) in the number of farm operators, and only slight improvements in non-farm and establishment (wage and salary) employment. From 1990 to 1993, San Joaquin experienced a considerable drop (11.0%) in construction employment, and moderate decreases in manufacturing (4.3%), finance, insurance and real estate (4.5%), and farming (3.0%). Government employment, however, gained significantly at 8.7%, while retail and wholesale employment registered a 5.0% rise. Stanislaus County experienced big employment gains in transportation and utilities (at 9.2%, but the industry is a small employer), and recorded minor losses in farming. Stanislaus is ranked among the top ten counties statewide in agricultural products sales. The mild climate, fertile soil and abundance of water, permit a great diversification of crops which is further evidenced by the number one ranking, statewide in the production of apricots, dry beans, peaches, English walnuts, and milk. Examiners interviewed a member of a local government agency and determined that small business loans are needed: the area primarily attracts businesses that employ 20 to 30 people. Leading group classes of products are food processing, equipment and stock feed. The largest employers in the area include Hershey Chocolate, USA (734 employees); Hunt-Wesson Foods (500 permanent employees and 1,000 seasonal); Oakdale School District (480 employees); Oak Valley District Hospital (400 employees); and United Can Company (135 employees).

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN-TO-DEPOSIT RATIO:

Oak Valley Community Bank's average loan-to-deposit ratio of 77% is more than reasonable, given the institution's size, financial condition, assessment area credit needs, and demographics. Although the bank has extended a large number of agricultural loans, these activities did not significantly cause seasonal fluctuations in either deposits or loans. Since the previous examination, the loan-to-deposit ratio has remained relatively constant. The following table and graph illustrate the loan-to-deposit ratio by quarter.



<i>Quarter Ending</i>	<i>Ratios</i>
12/31/94	78%
03/31/95	77%
06/30/95	76%
09/30/95	76%
12/31/95	77%
03/31/96	80%
06/30/96	72%
Average	76%

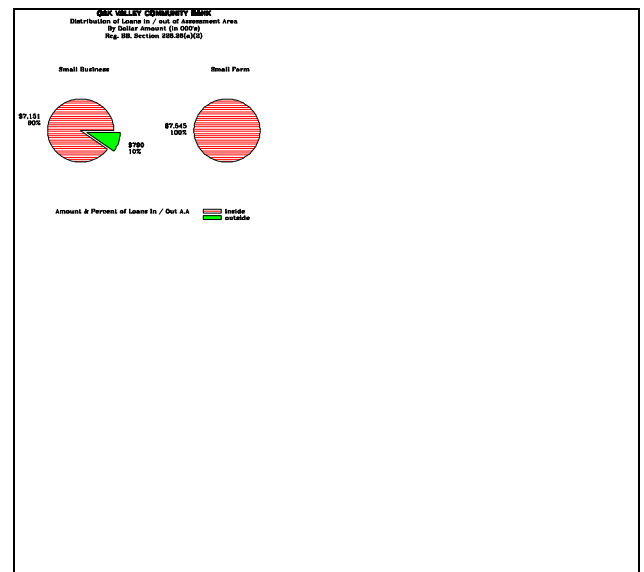
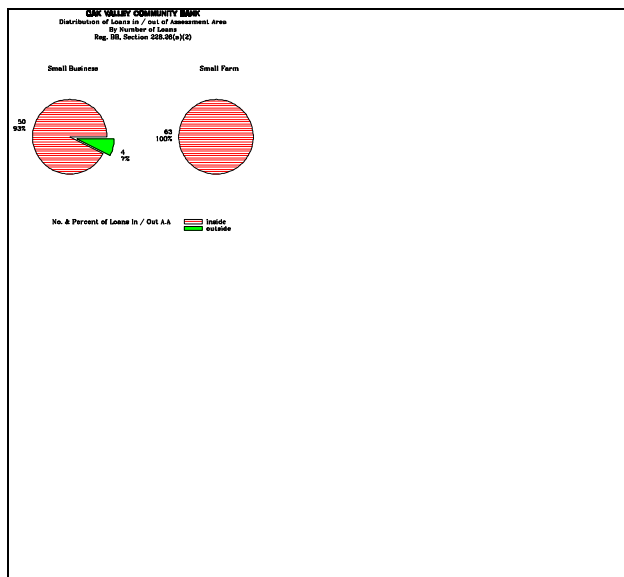
In addition to reviewing the trends in the bank's loan-to-deposit ratio, comparisons were drawn against other similarly situated institutions. The local peer banks' average loan-to-deposit ratio for the past eight quarters was 59%. The three peer banks are located in Stockton, Mariposa, and Turlock and their loan-to-deposit ratios are 51%, 50%, and 76%, respectively.¹ The result of this analysis indicates that the bank's lending levels exceeds standards.

¹The computation of average loan-to-deposit ratio for peer banks is based on Call Report data for quarters ending 12/94, 3/95, 6/95, 9/95, 12/95 and 3/96. Peer banks located in Mariposa and Stockton are commercial lenders; the Turlock peer is a consumer lender.

LENDING IN ASSESSMENT AREA:

Using a statistical sample of the bank's two major credit products, small business and small farm loans², extended since the previous examination; examiners analyzed the distribution of loans inside and outside the bank's assessment area. The statistical sample consisted of 54 business and 63 farm loans. The analysis shows that based on the number of loans extended, 93% (50) of the small business loans were extended inside the assessment area, while based on loan amount, 90% (\$7,151,042) were inside. The analysis also shows that all small farm loans were originated within the bank's assessment area. The high concentration of loans within the assessment area is excellent and is indicative of the bank's commitment to serve customers within its community.

The following graphs illustrate the distribution of small business and small farm loans within and outside of the bank's



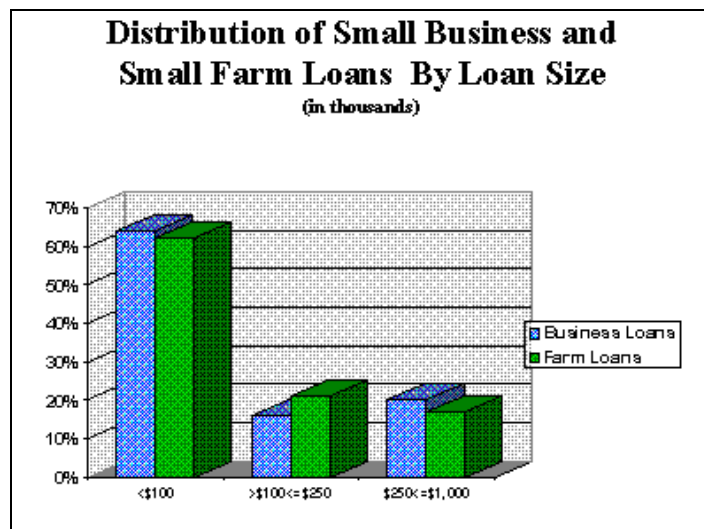
assessment area by number and dollar amount of loans.

SMALL BUSINESS AND SMALL FARM LOANS

Examiners reviewed business and farm loans extended inside the assessment area, 50 and 63 respectively, to determine the extent of lending to small businesses and small farms. Because information about business revenue was not consistently provided, examiners used the original loan amount as a proxy for business size. As demonstrated

²Small business loans and small farm loans are defined as loans with original loan amounts less than \$1 million.

by the following majority of original than \$100,000.



chart, the loans had amounts of less

A review of the bank's loan portfolio noted consistent extensions of Small Business Administration (SBA) loans as well as government-guaranteed small farm loans. As of July 31, 1996, the bank's gross SBA loans amounted to 12% of its loan portfolio, while its government-guaranteed small farm loans represented 10% of loans outstanding. In addition, a majority of the bank's borrowers are small businesses with annual revenues less than \$1,000,000. The bank's lending to different business sizes is considered reasonable.

GEOGRAPHIC DISTRIBUTION OF LOANS:

Examiners reviewed the disbursement of business loans among geographies of different income levels and found that the distribution of loans among income geographies did not meet standards for satisfactory performance. The demographics of the community, identifying the number of low-, moderate-, middle- and upper-income tracts, were compared to the number of small business and small farm loans extended within each of those tracts. The following tables highlight the distribution of small business and small farm loans by income level of census tract.

Small Business Loans

Income Type	Number (& %) of Loans	Number (& %) of Tracts
Low Income	0 (0%)	36 (16%)

Moderate Income	7 (14%)	44(19%)
Middle Income	33(66%)	101(45%)
Upper Income	10 (20%)	46(20%)
Total	50 (100%)	227(100%)

Small Farm Loans

Income Type	Number (& %) of Loans	Number (& %) of Tracts
Low Income	0 (0%)	36 (16%)
Moderate Income	9 (14%)	44(19%)
Middle Income	49 (78%)	101(45%)
Upper Income	5 (8%)	46(20%)
Total	63 (100%)	227(100%)

As the tables illustrate, while the majority of loans were extended to the moderate- and middle-income census tracts, there were no loans extended within the 36 low-income census tracts which represent 16% of the bank's assessment area. Bank management indicated that some of those low-income tracts were occupied by a large farm in a suburb, a school and a railroad depot in a downtown area. Although management offered a partial explanation for the lack of lending, these reasons are insufficient to justify the fact that no loans were extended in 36 tracts.

RESPONSE TO COMPLAINTS:

The bank had not received any complaints about its performance in meeting local credit needs; therefore, the bank's record of taking action in response to such complaints was not evaluated in its CRA assessment.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS:

Oak Valley Community Bank is in compliance with the substantive provisions of the Equal Credit Opportunity Act (Regulation B), the Fair Housing Act, and the Home Mortgage Disclosure Act (HMDA). However, the bank is not in compliance with the technical provisions of Regulation B. Nonetheless, the violations noted did not result in any disparate treatment or involve any protected class under Regulation B. Additionally, examiner interviews of bank lending staff indicated a satisfactory knowledge of the provisions of the antidiscrimination laws and regulations. To help prevent illegal discrimination or discouragement, bank management has committed to provide periodic fair lending training to its employees and implement an effective review procedure of its approved and declined loans.